

1976

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

ANNUAL REPORT

OF

The Belt Railway Company

of **CHICAGO**

FOR THE

YEAR ENDED DECEMBER 31, 1976

BUS

652,0973

B419a

Send direct

THE BELT RAILWAY COMPANY OF CHICAGO

DIRECTORS

J. C. DAVIS, The Atchison, Topeka and Santa Fe Railway Co.	Chicago, Ill.
D. H. KING, Burlington Northern Inc.	Chicago, Ill.
J. T. COLLINSON, The Chesapeake and Ohio Railway Co.	Cleveland, Oh.
H. S. VIERLING, Missouri Pacific Railroad Co.	Chicago, Ill.
M. L. CASSELL, Chicago, Rock Island and Pacific Railroad Co.	Chicago, Ill.
K. F. KALSOW, Consolidated Rail Corp.	Chicago, Ill.
R. E. SULLIVAN, Consolidated Rail Corp.	Chicago, Ill.
J. H. BURDAKIN, Grand Trunk Western Railroad Co.	Detroit, Mich.
H. F. DAVENPORT, Illinois Central Gulf Railroad Co.	Chicago, Ill.
R. E. BISHA, Louisville and Nashville Railroad Co.	Louisville, Ky.
S. T. BROWN, Louisville and Nashville Railroad Co.	Roanoke, Va.
R. F. DUNLAP, Norfolk and Western Railway Co.	Roanoke, Va.
T. R. KLINGEL, Soo Line Railroad Co.	Minneapolis, Minn.

EXECUTIVE COMMITTEE

R. E. BISHA, Chairman

J. C. DAVIS - R. F. DUNLAP - D. H. KING - H. S. VIERLING

OFFICERS

President and General Manager	R. E. DOWDY
Vice President and Controller	R. G. RUBINO
Secretary and Treasurer	G. D. MORIARTY
General Counsel	R. F. KOPROSKE
Assistant Secretary and Assistant Treasurer	R. A. ORLANDO

GENERAL OFFICES

6900 SOUTH CENTRAL AVENUE, CHICAGO, ILLINOIS 60638

ANNUAL MEETING - SECOND TUESDAY IN MAY

Chicago, Illinois
May 10, 1977

TO THE STOCKHOLDERS OF
THE BELT RAILWAY COMPANY OF CHICAGO

The Annual Report of the company for the year 1976 is hereby submitted.

The national economy stabilized in the year 1976 and the traffic over the railway settled into a consistent pattern, as opposed to the fluctuations of 1975. Our operating revenues increased \$1,517,506 or 9% compared to the preceding year. Total cars handled by Belt power increased 1%. Belt's proportion of railway operating expenses increased 7% but the operating ratio was reduced from 84% to 82%.

On April 1, ConRail, as formed under the Railroad Revitalization and Regulatory Reform Act, became an owner of the company. During nine months of operation, ConRail has steadily increased its use of the Belt by originating and terminating more road trains at Clearing than its predecessors, Erie Lackawanna and Penn Central. This increased usage was instrumental in Belt Separate Operations moving back into a profit position for the year. Soo Line volume of connecting gateway traffic required the placing of a second road train in service to and from Clearing Yard.

In July, Rail to Water Transfer Corporation suffered a fire in their transfer tower and were unable to operate for a period of thirty days. The total impact on the Belt is difficult to determine. However, we feel we lost some shipments, other than coal, which could not be handled due to their having to fulfill coal commitments after operations resumed.

The management hopes to expand on the use of the Belt by the Owner Lines in 1977. We feel that more Owners can benefit from the service available at Clearing Yard by commencing road train service to and from Clearing thereby reducing the multiple handling of cars moving through the Chicago Gateway.

During the year, A. S. Boyd, G. W. Maxwell and K. E. Smith resigned from the Board of Directors. Their wise counsel and dedication is gratefully acknowledged.

On December 6, 1976, D. R. Turner, Vice President and Assistant General Manager suffered a fatal heart attack. He will be missed by the employees and the customers of the company.

The Board recognizes the cooperation and contributions of the employees during the year.

By order of the Board of Directors.

R. E. DOWDY
President and General Manager

REVIEW OF OPERATIONS

REVENUES:

Total operating revenues for the year were \$18,701,341, an increase of \$1,517,506 or 8.83%. Intermediate and local switch cars handled in Belt Separate Operation comprise the principal source of revenues. Intermediate switching revenue increased \$270,412 or 3.81% and local switching revenue increased \$1,006,714 or 10.70%.

Demurrage charges were up \$228,055 compared to 1975. This was due largely to non-recurring adjustments in the preceding year, coupled with a slight increase in detention time of cars held by industries.

During 1976, cars handled by Belt Railway totaled 842,801 compared to 831,786 in 1975, an increase of 11,015 cars. Notwithstanding anticipated improvement in the national economy during the coming year, 1977 results will largely depend on greater utilization of Belt's facilities by its shareholder railroad corporations.

Cars handled by Belt Railway and its shareholder railroad corporations totaled 1,385,819 in 1976 compared to 1,515,958 in 1975, a decrease of 130,139 or 8.58%. Intermediate cars handled decreased 6,838 or 2.83%; local loaded cars decreased 6,840 or 5.32%; and cars interchanged directly between Owner roads using Belt Railway terminal facilities increased 28,547 or 8.46%. Cars handled by Owner Lines in direct movements over Belt trackage decreased 141,154 or 20.63%, mainly attributable to the reduced operations of C & O at its Rockwell Street yard facility.

Fourteen industries were located during the year and thirteen were vacated. This compared with twenty-one located and eighteen vacated in 1975.

JOINT FACILITY RENT INCOME:

The decrease of \$534,277 was due to the net revenue results of \$133,427 from terminal switching operations for 1976 as against a loss of \$518,860 in 1975, offset by the increases in railroad retirement taxes billable to the proprietary roads.

OPERATING EXPENSES:

Total expenses in 1976 were \$22,705,546, an increase of \$2,063,027 or 9.99% compared to 1975. Payroll costs increased by \$1,844,740 due to higher wage rates granted in 1976 under industry wide labor agreements. The operating ratio of Belt Separate Operation decreased to 82.36 compared to 84.00 in 1975.

Maintenance of Way expenses totaled \$4,595,956, an increase of \$844,474. This was principally due to an increase of \$451,598 for programmed track improvements, an increase in signal and interlocker expenses of \$204,690, snow removal of \$46,665 and higher wage costs of \$191,060; offset by controlled maintenance requirements throughout the system. The Maintenance of Way portion of the operating ratio was 13.59 compared to 12.66 in 1975.

Maintenance of Equipment expenses totaled \$2,855,384, a decrease of \$69,023. Benefits realized from controlled maintenance requirements and the decrease in expenses for freight-train car repairs were offset by higher wage costs of \$234,372 and the increased costs for insurance and employee health and welfare expense. The Maintenance of Equipment portion of the operating ratio was 11.86 compared to 13.80 in 1975.

Transportation expenses totaled \$13,274,756, an increase of \$1,022,894. Higher wage costs of \$1,264,383 were offset by continued overall control of operational requirements for handling cars received during the year. Other increase items were principally: locomotive fuel, \$77,974; employee health and welfare benefits, \$162,408; and insurance, \$41,193 which were offset by decreases in: loss and damaged freight, \$28,721; and settlements for injuries to persons, \$123,014. The transportation portion of the operating ratio was 49.89 compared to 50.78 in 1975.

General expenses totaled \$1,976,907, an increase of \$266,618. This was due to higher wage costs of \$154,925 and funding of pensions, \$144,462. This portion of the operating ratio was 7.01 compared to 6.74 in 1975.

Total operating expenses include amounts chargeable to others as their proportion of costs incurred by the Belt Railway Company in maintaining and operating jointly used tracks and facilities. Net operating expenses charged to Belt Railway Separate Operation are reflected on pages 6 and 16 through 19.

OTHER INCOME AND EXPENSES:

Interest income decreased \$45,761 and Income from sinking and other reserve funds decreased \$26,902. This was due to the reduction in funds available for short-term investments and the overall decline in interest rates paid on investments during the year.

Miscellaneous income increased \$133,704. This was due principally to discount on company bonds reacquired in 1976 as compared to the preceding year.

Railway tax accruals increased \$10,574. Railroad retirement and unemployment taxes increased \$206,802 and \$50,699 respectively, but were offset by a decrease of \$249,699 in accruals for general property taxes.

Hire of freight cars increased \$152,339, basically due to more cars handled which were subject to car hire payments.

RAIL TO WATER ACTIVITY:

Unit train coal rail to water transfer operations started on April 5th and ended December 9th. In 1975, the operations began on March 31st and ended December 15th. Coal tonnage handled through the facility totaled 3,199,219 tons in 1976 compared to 3,933,668 tons in 1975, a decrease of 734,449 tons. Other commodities handled through this dock facility - coke, clay and feed - totaled 281,627 tons compared to 390,265 tons in 1975, a decrease of 108,638 tons. Total tonnage for the year decreased 843,087 tons compared to 1975.

PROPERTY IMPROVEMENTS:

Rail replacements in 1976 consisted of 2,402 tons of new and 1,377 tons of secondhand rail. There were 16,881 new cross ties and 169,109 feet B.M. of new switch ties installed. The in-track welding program started in 1974 was continued in 1976 with ten miles of main track and five miles of yard track being welded by this process. Other changes in road and equipment are reflected on pages 14 and 15 of this report.

STATEMENT OF INCOME

Year ended December 31	1976	1975	Increase or (Decrease)
RAILWAY OPERATING REVENUES:			
Intermediate switching	\$ 7,359,974	\$ 7,089,562	\$ 270,412
Local switching	10,412,526	9,405,812	1,006,714
Demurrage	854,221	626,166	228,055
Rents of buildings and other property . .	300	750	(450)
Miscellaneous	74,320	61,545	12,775
Total railway operating revenues . . .	18,701,341	17,183,835	1,517,506
RAILWAY OPERATING EXPENSES:			
Maintenance of way and structures . . .	2,542,205	2,174,607	367,598
Maintenance of equipment	2,218,187	2,370,738	(152,551)
Traffic	2,342	4,324	(1,982)
Transportation-Rail line	9,330,121	8,726,235	603,886
General (Note 6)	1,310,415	1,158,205	152,210
Total railway operating expenses . . .	15,403,270	14,434,109	969,161
Net revenue from railway operations . .	3,298,071	2,749,726	548,345
RAILWAY TAX ACCRUALS:			
General property	402,456	652,155	(249,699)
Federal Income (Note 3)	-	3,357	(3,357)
State Income	-	(5,109)	5,109
Retirement	2,202,237	1,995,435	206,802
Unemployment	219,861	169,162	50,699
Other	15,385	14,365	1,020
Total railway tax accruals	2,839,939	2,829,365	10,574
Railway operating income (loss) . . .	458,132	(79,639)	537,771
RENT INCOME:			
Rent from locomotives	17,512	16,076	1,436
Rent from work equipment	1,106	34	1,072
Joint facility rent income (Note 1) . . .	1,556,879	2,091,156	(534,277)
Total rent income	1,575,497	2,107,266	(531,769)
RENTS PAYABLE:			
Hire of freight cars	799,727	647,388	152,339
Rent for locomotives (Note 5)	188,640	188,640	-
Rent for work equipment	-	1,400	(1,400)
Joint facility rents	102,633	117,372	(14,739)
Total rents payable	1,091,000	954,800	136,200
Net rents	484,497	1,152,466	(667,969)
Net railway operating income	\$ 942,629	\$ 1,072,827	\$ (130,198)

See notes to financial statements.

STATEMENT OF INCOME - concluded

Year ended December 31	1976	1975	Increase or (Decrease)
OTHER INCOME:			
Income from lease of road and equipment	\$ 117,284	\$ 69,767	\$ 47,517
Miscellaneous rent income	342,396	296,152	46,244
Income from non-operating property . .	64,916	51,589	13,327
Interest income	42,360	88,121	(45,761)
Income from sinking and other reserve funds	81,927	108,829	(26,902)
Miscellaneous income (property sales and company bonds reacquired) . . .	252,977	119,273	133,704
Total other income	901,860	733,731	168,129
Total income	1,844,489	1,806,558	37,931
MISCELLANEOUS DEDUCTIONS FROM INCOME:			
Miscellaneous rents	146	146	-
Miscellaneous tax accruals	41,046	33,430	7,616
Miscellaneous income charges	40,166	8,268	31,898
Total miscellaneous deductions . . .	81,358	41,844	39,514
Income available for fixed charges . .	1,763,131	1,764,714	(1,583)
FIXED CHARGES:			
Rent for leased roads and equipment . . .	2,259	2,259	-
Interest on funded debt	1,728,308	1,708,196	20,112
Amortization of discount on funded debt .	4,971	4,971	-
Total fixed charges	1,735,538	1,715,426	20,112
Net income (Note 1)	\$ 27,593	\$ 49,288	\$ (21,695)
Net income per share	\$.88	\$ 1.58	\$ (.70)

STATEMENT OF RETAINED INCOME

	1976	1975
Balance at beginning of year	\$2,638,991	\$2,589,703
Net income (Note 1)	27,593	49,288
Balance at end of year	\$2,666,584	\$2,638,991

See notes to financial statements.

BALANCE SHEET

Assets	December 31, 1976	December 31, 1975	Increase or (Decrease)
CURRENT ASSETS:			
Cash	\$ 600,030	\$ 152,451	\$ 447,579
Temporary cash investments	296,738	1,399,300	(1,102,562)
Special deposits	2,657	3,605	(948)
Traffic and car-service balances	694,286	670,942	23,344
Net balance receivable from agents and conductors	233,286	164,816	68,470
Miscellaneous accounts receivable	2,520,380	2,246,524	273,856
Interest and dividends receivable	26,106	91,489	(65,383)
Accrued accounts receivable	915,464	606,370	309,094
Working fund advances	2,040	2,040	-
Prepayments	276,253	294,523	(18,270)
Material and supplies (Note 1)	1,480,297	1,199,696	280,601
Total current assets	7,047,537	6,831,756	215,781
SPECIAL FUNDS:			
Sinking funds	-	6,106	(6,106)
Capital and other reserve funds	1,222,073	1,524,787	(302,714)
Insurance and other funds	17,000	16,000	1,000
Total special funds	1,239,073	1,546,893	(307,820)
INVESTMENTS:			
Other investments (Note 4)	1	1	-
PROPERTIES (Note 1):			
Road	31,324,088	30,685,895	638,193
Equipment	6,290,312	6,238,273	52,039
Improvements on leased property	13,897	14,707	(810)
Total transportation property	37,628,297	36,938,875	689,422
Accrued depreciation - Road and equipment	(9,042,988)	(8,625,948)	(417,040)
Total transportation property - Net	28,585,309	28,312,927	272,382
Miscellaneous physical property	6,111,995	6,119,339	(7,344)
Total properties - Net	34,697,304	34,432,266	265,038
OTHER ASSETS AND DEFERRED CHARGES:			
Other assets (Note 2)	671,487	966,702	(295,215)
Unamortized discount on long-term debt	53,428	58,399	(4,971)
Other deferred charges (Note 9)	302,917	207,147	95,770
Total other assets and deferred charges	1,027,832	1,232,248	(204,416)
TOTAL ASSETS.	\$ 44,011,747	\$ 44,043,164	\$ (31,417)

See notes to financial statements.

BALANCE SHEET

Liabilities and Shareholders' Equity	December 31, 1976	December 31, 1975	Increase or (Decrease)
CURRENT LIABILITIES:			
Audited accounts and wages payable	\$ 1,209,342	\$ 926,080	\$ 283,262
Miscellaneous accounts payable	216,348	193,641	22,707
Interest matured unpaid	2,657	3,605	(948)
Unmatured interest accrued	420,221	427,913	(7,692)
Accrued accounts payable	70,140	73,100	(2,960)
Federal income taxes accrued (Note 9)	-	-	-
Other taxes accrued	1,079,644	1,035,940	43,704
Other current liabilities	45,989	38,667	7,322
Total current liabilities (exclusive of long-term debt due within one year)	3,044,341	2,698,946	345,395
LONG-TERM DEBT DUE WITHIN ONE YEAR:			
First mortgage bonds-Series A	714,000	688,000	26,000
Equipment obligations	32,500	57,500	(25,000)
Total debt due within one year	746,500	745,500	1,000
LONG-TERM DEBT (Note 7):			
First Mortgage 4-5/8% Sinking Fund Bonds, Series A, due August 15, 1987	24,575,000	25,320,000	(745,000)
Equipment obligations	8,125	40,625	(32,500)
Amounts payable to affiliated companies	9,540,864	8,795,864	745,000
Total long-term debt	34,123,989	34,156,489	(32,500)
RESERVES:			
Casualty and other reserves	-	1,188	(1,188)
OTHER LIABILITIES AND DEFERRED CREDITS:			
Other liabilities	-	98,814	(98,814)
Other deferred credits (Note 2)	80,333	353,236	(272,903)
Total other liabilities and deferred credits	80,333	452,050	(371,717)
SHAREHOLDERS' EQUITY:			
Capital stock, common, \$100 par value, authorized 50,000 shares, issued and outstanding 31,200 shares (Note 8)	3,120,000	3,120,000	-
Paid - in surplus	230,000	230,000	-
Retained income	2,666,584	2,638,991	27,593
Total shareholders' equity	6,016,584	5,988,991	27,593
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$44,011,747	\$44,043,164	\$ (31,417)

See notes to financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1976	1975
Source of Funds:		
Net income (Note 1)	\$ 27,593	\$ 49,288
Depreciation	446,640	448,250
Transportation property retired (non-depreciable) . .	43,373	96,000
Casualty and other reserves (decrease)	(1,188)	(29,335)
Funds provided from operations	516,418	564,203
Salvage from property retired (depreciable)	15,417	11,904
Miscellaneous physical property sold	7,344	25,986
Decrease in capital and other special funds.	307,820	68,359
Decrease in other assets and deferred charges	204,416	-
Advances from affiliated companies	745,000	745,000
TOTAL FUNDS PROVIDED	\$1,796,415	\$1,415,452
Application of Funds:		
Additions to transportation properties	\$ 777,812	\$1,161,530
First Mortgage Bonds acquired	745,000	745,000
Equipment obligations retired	32,500	65,625
Increase in other assets and deferred charges	-	123,960
Decrease in other liabilities and deferred credits . . .	371,717	269,927
Increase (decrease) in working capital	(130,614)	(950,590)
TOTAL FUNDS APPLIED	\$1,796,415	\$1,415,452
Increase (Decrease) in Working Capital (Including		
Long-Term Debt Due Within One Year):		
Current Assets:		
Cash and temporary cash investments	\$ (655,931)	\$ (716,976)
Receivables and accruals	609,380	(289,076)
Prepayments	(18,270)	93,062
Material and supplies	280,602	289,468
TOTAL	215,781	(623,522)
Current Liabilities:		
Payables and accruals	294,369	(98,612)
Federal income taxes accrued	-	(8,268)
Other taxes accrued	43,704	31,301
Long-term debt due within one year	1,000	462,000
Other	7,322	(59,353)
TOTAL	346,395	327,068
Increase (Decrease) in Working Capital	\$ (130,614)	\$ (950,590)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Statement Presentation

Accounts of the Company are maintained in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission which substantially conform with generally accepted accounting principles.

The principal business of the Company is providing railroad terminal and switching facilities and services to domestic railroad corporations and to the shippers of such railroad corporations. A substantial part of the services rendered by the Company is in behalf of its shareholder railroad corporations which, under an operating agreement with the Company ("Operating Agreement"), have operating rights for the movement of their trains by the Company.

The Company's terminal operations are generally classified either as owner lines operations or Company railway operations. The total expenses allocated to owner lines operations are billed to the shareholder railroad corporations on an actual cost basis. A summary of such operations for 1976 and 1975 follows:

	<u>1976</u>	<u>1975</u>
Railway operating expenses	\$7,141,962	\$6,129,123
Railway tax accruals	972,179	858,063
Interest and other fixed charges	957,920	940,874
Other	(153,866)	(165,053)
Total billed to shareholder railroad corporations	<u>\$8,918,195</u>	<u>\$7,763,007</u>

The terminal railroad facilities and related services for Company railway operations resulted in net revenues of \$133,427 in 1976 and net losses of \$518,860 in 1975; as prescribed by Section 281 of the Internal Revenue Code and the Operating Agreement, these results are incorporated in the Company's statement of account with its shareholder railroad corporations. Nonrelated terminal income and expenses of the Company are not included in the statement of account with its shareholder railroad corporations.

Properties, Depreciation, Maintenance and Repairs

Properties are stated substantially at cost. Replacement accounting is used principally for track accounts; under this method, betterments and additions are capitalized and are not depreciated. Replacements in kind and retirements are charged to expense.

Additions, renewals and betterments of all other classes of property are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment or depreciable road property is sold or retired, the cost less salvage value is charged to accrued depreciation.

Depreciation is generally provided on the straight-line method. The average annual depreciation rates are approximately 1.54% for depreciable road properties and 4.07% for rolling stock.

Investment Tax Credit

The Company uses the "flow-through" method of accounting for investment tax credits.

Material and Supplies

Material and supplies, consisting primarily of fuel oil and replacement or repair parts for equipment and road property, are stated at average cost.

2. RECEIVABLES

Included in other assets at December 31, 1976 and 1975, are receivables of approximately \$657,000 and \$676,000, respectively, due from two former shareholder railroad corporations, Penn Central Transportation Company and Erie Lackawanna Railway Company, and one shareholder railroad corporation, the Chicago, Rock Island and Pacific Railroad Company. Such receivables arose from transactions occurring prior to the respective dates that these companies entered into reorganization proceedings under Section 77 of the Federal Bankruptcy Act. The Company has filed claims for payment with the respective reorganization courts. The ultimate collectibility of these receivables is not presently determinable.

Also included in other assets as of December 31, 1975 are receivables of approximately \$275,000, representing unsettled amounts billed to various carriers for cars received without proper forwarding instructions ("no-bills"). A corresponding amount has been credited to other deferred credits. Effective October 1, 1976, the dispute over "no-bill" charges was resolved in accordance with provisions prescribed by the Association of American Railroads, and appropriate charges to forwarding railroads are included in receivables and revenues as invoiced.

3. FEDERAL INCOME TAXES

The effective Federal income tax rate for 1975 was 6%. There is no Federal income tax provision in 1976. The difference between the effective rate and the statutory rate of 48% in 1975 is due primarily to investment tax credits, capital gains rates, and joint venture losses (see Note 4).

For Federal income tax return purposes, the Company has available \$697,000 investment tax credit carryforward at December 31, 1976. The investment tax credits expire in varying amounts from 1977 to 1983. Such carryforward amount may decrease in the event of adverse settlement of tax litigation discussed in Note 9.

4. JOINT VENTURE

The Company has entered into and formed a joint venture partnership for the acquisition and development of land and the operation and management of improvements cons-

tructed thereon. The Company's original investment of cash and land of \$11,657 has been reduced to \$1 because of recorded net losses.

5. COMMITMENTS

The Company leases locomotives, trucks, and data processing equipment. Total rental expense charged to operations for such leaseholds was \$461,445 and \$461,825 for the years 1976 and 1975, respectively. Minimum annual rental commitments at December 31, 1976 under leases having an initial or remaining term of more than one year are as follows:

Years Ending December 31,	
1977	\$ 188,639
1978	188,640
1979	188,639
1980	188,640
1981	188,639
1982	94,320
Total	<u>\$1,037,517</u>

6. RETIREMENT PLANS

The Company adopted a funded pension plan effective January 1, 1976 which provides benefits to eligible employees who retire on or after January 1, 1976 in addition to benefits received under the Railroad Retirement Act. Pension expense in 1976 for this plan was \$155,395 which includes amortization of prior service cost over thirty years. The actuarially computed value of vested benefits for this plan as of January 1, 1976 exceeded the total of the pension fund and balance sheet accruals by approximately \$969,000.

The Company also charged to pension expense \$96,828 in 1976 and \$107,958 in 1975 for pension benefits paid to retired employees under the Company's unfunded supplemental retirement plan which was replaced by the above mentioned funded plan.

7. LONG-TERM DEBT

The First Mortgage Bonds and equipment obligations are collateralized by substantially all the properties of the Company.

Under the provisions of the indenture relating to First Mortgage Bonds, the Company is required to meet sinking fund requirements of \$745,000 annually. The Company reacquired bonds to meet the sinking fund requirements for 1976 and 1975.

Long-term debt due after one year matures as follows: 1978, \$753,125; 1979 through 1986, \$745,000 annually; 1987, \$17,870,000.

As prescribed in the operating agreement between the Company and the shareholder railroad corporations, such corporations, on a proportionate basis, have advanced funds to the Company for sinking fund installments, equipment obligations, and the cost of capital improvements. Such advances, aggregating \$9,540,864 and \$8,795,864 at December 31, 1976 and 1975 respectively, will be repaid when funds are available in the proportion and in the same order of time as advances were made.

8. CORPORATE STRUCTURE

The Company was organized under the General Laws Authorizing the Formation of Railroad Companies in the State of Illinois passed in the year 1882. Date of incorporation was November 22, 1882. Control of the Company is based on purchases of capital stock. At December 31, 1976, such stock is held by eleven railroad corporations:

Name of Security Holders	Number of Shares
Atchison, Topeka & Santa Fe Ry Co.	2,400
Burlington Northern, Inc.	2,400
Chesapeake & Ohio Ry Co.	2,400
Chicago, Rock Island & Pacific RR Co.	2,400

Consolidated Rail Corp.	4,800
Grand Trunk Western RR Co.	2,400
Illinois Central Gulf RR Co.	2,400
Louisville & Nashville RR Co.	4,800
Missouri Pacific RR Co.	2,400
Norfolk & Western Ry Co.	2,400
Soo Line RR Co.	2,400

Total shares issued and outstanding 31,200

9. CONTINGENCIES

The Company is currently involved in litigation with the United States of America and the Internal Revenue Service covering taxable years 1962 through 1966 and 1967 and 1969, respectively. The possible adverse results of these two actions could be an additional tax liability of approximately \$305,000 plus interest. Under Section 281 of the Internal Revenue Code and the Operating Agreement, there would be no adverse effect on the financial position of the Company since reinstated income would be charged back to the shareholder railroad corporations.

For taxable years 1972 through 1974, the Company was assessed and paid approximately \$222,000, net of investment tax credits of approximately \$206,000. Such amount is included in other deferred charges pending the ultimate outcome of litigation discussed above.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Directors and Shareholders of
The Belt Railway Company of Chicago

We have examined the balance sheets of The Belt Railway Company of Chicago as of December 31, 1976 and 1975, and the related statements of income, retained income, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 to the financial statements, the Company has receivables of approximately \$657,000 and \$676,000 at December 31, 1976 and 1975, respectively, due from one shareholder and two former shareholder railroad corporations who have filed for reorganization proceedings under the Federal Bankruptcy Act. The ultimate collectibility of these receivables is not presently determinable.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate collection of the receivables discussed in the preceding paragraph, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1976 and 1975, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

Chicago, Illinois
March 25, 1977

ROAD AND EQUIPMENT PROPERTY

	Balance December 31, 1975	1976		Balance December 31, 1976
		Additions & Better- ments	Retire- ments	
ROAD:				
Engineering.	\$ 653,774	\$ -	\$ 1,702	\$ 652,072
Land for transportation purposes	9,688,996	-	13,082	9,675,914
Grading	4,397,683	-	-	4,397,683
Bridges, trestles and culverts	1,924,608	-	-	1,924,608
Ties	1,033,390	668	1,038	1,033,020
Rails	2,841,730	152,606	1,406	2,992,930
Other track material . . .	2,303,101	160,107	25,159	2,438,049
Ballast	600,505	-	207	600,298
Track laying and surfacing .	1,062,186	7,913	(23,220)	1,093,319
Fences, snowsheds and signs .	13,083	-	-	13,083
Station and office buildings	1,166,347	13,958	24,241	1,156,064
Roadway buildings	87,891	-	-	87,891
Water stations	66,317	-	-	66,317
Fuel stations	65,376	-	-	65,376
Shops and engine houses . .	708,063	31,605	-	739,668
Wharves and docks	40,369	-	-	40,369
Communication systems . .	307,905	37,831	-	345,736
Signals and interlockers . .	1,619,087	97,206	2,978	1,713,315
Power Plants	55,016	-	-	55,016
Power-transmission systems .	116,376	57,507	-	173,883
Miscellaneous structures . .	70,244	-	-	70,244
Roadway machines	458,578	39,263	7,232	490,609
Roadway small tools	13,790	-	-	13,790
Public improvements - Construction	706,091	-	-	706,091
Other expenditures - road . .	524	-	-	524
Shop machinery	313,862	95,183	4,513	404,532
Power plant machinery . . .	371,003	3,462	778	373,687
TOTAL ROAD	\$30,685,895	\$ 697,309	\$ 59,116	\$31,324,088
EQUIPMENT:				
Diesel locomotives	\$ 5,647,210	\$ 15,386	\$ 2,752	\$ 5,659,844
Freight-train cars	236,425	-	1,841	234,584
Work equipment	120,158	1,000	-	121,158
Miscellaneous equipment . .	234,480	64,117	23,871	274,726
TOTAL EQUIPMENT	\$ 6,238,273	\$ 80,503	\$ 28,464	\$ 6,290,312
TOTAL ROAD AND EQUIPMENT	\$36,924,168	\$ 777,812	\$ 87,580	\$37,614,400

EQUIPMENT OWNED

	On Hand Dec. 31, 1975	Changes During Year		On Hand Dec. 31, 1976
		Added	Retired	
Locomotives:				
Diesel - Switching (A) units	35			35
" " (B) units	7			7
Total	42			42
Freight-train Cars:				
Caboose	29		1	28
Box	-			-
Total	29		1	28
Work Equipment:				
Wrecking derrick	1			1
Jet snow blower	1			1
Burro crane	1			1
Other maintenance cars	10	1		11
Total	13	1		14
Miscellaneous Equipment:				
Automobiles (passenger)	12	3	4	11
Trucks (maintenance)	25	7	2	30
Trailers (utility)	3			3
Total	40	10	6	44

FUNDED DEBT

First Mortgage bonds issued by Bankers
Trust Company, New York, Trustee:

Total amount authorized \$75,000,000

Sinking Fund Bonds 4-5/8%, Series "A", issued
August 15, 1962, due August 15, 1987:

For purchase of properties formerly leased from
the Chicago and Western Indiana Railroad
Company \$36,662,852

Expended for financing expenses and for
additions and betterments subsequent to
August 15, 1962 587,148

TOTAL ISSUED \$37,250,000

Less: Redeemed and cancelled \$11,930,000
Redeemed and held by or for Company 31,000 11,961,000

TOTAL OUTSTANDING AT DECEMBER 31, 1976 \$25,289,000

OPERATING EXPENSES

Year ended December 31	1976	1975	Increase or (Decrease)
MAINTENANCE OF WAY AND STRUCTURES:			
Superintendence	\$ 310,544	\$ 287,714	\$ 22,830
Roadway maintenance	143,996	135,767	8,229
Bridges, trestles and culverts	85,618	86,002	(384)
Ties	245,916	258,305	(12,389)
Rails	473,421	250,602	222,819
Other track material	447,919	271,276	176,643
Ballast	82,439	82,580	(141)
Track laying and surfacing	1,045,084	980,418	64,666
Fences, snowsheds, and signs	14,668	9,290	5,378
Station and office buildings	66,866	67,854	(988)
Roadway buildings	13,913	11,189	2,724
Water stations	-	-	-
Fuel stations	1,385	1,371	14
Shops and enginehouses	24,502	24,904	(402)
Communication systems	111,251	116,812	(5,561)
Signals and interlockers	597,343	392,653	204,690
Power plants	132	42	90
Power-transmission systems	326	483	(157)
Miscellaneous structures	1,600	205	1,395
Road property - Depreciation (Leased)	26	26	-
Road property - Depreciation (Owned)	176,112	177,131	(1,019)
Retirements - Road	(13,156)	(40,992)	27,836
Roadway machines	47,448	43,689	3,759
Dismantling retired road property	34,946	44,576	(9,630)
Small tools and supplies	86,543	59,640	26,903
Removing snow, ice, and sand	85,007	38,342	46,665
Public improvements - Maintenance	51,952	35,718	16,234
Injuries to persons	44,584	39,504	5,080
Insurance	110,370	90,005	20,365
Stationery and printing	1,903	4,400	(2,497)
Employees health and welfare benefits	129,931	113,375	16,556
Other expenses	3,088	3,562	(474)
Maintaining joint tracks, yards and other facilities - Dr.	170,279	165,039	5,240
Gross total	4,595,956	3,751,482	844,474
Maintaining joint tracks, yards and other facilities - Cr.	2,053,751	1,576,875	476,876
Net - Belt Railway- Separate operation	\$2,542,205	\$2,174,607	\$ 367,598
Ratio to operating revenues	13.59	12.66	.93

OPERATING EXPENSES — continued

Year ended December 31	1976	1975	Increase or (Decrease)
MAINTENANCE OF EQUIPMENT:			
Superintendence	\$ 159,054	\$ 140,550	\$ 18,504
Shop machinery	4,066	4,786	(720)
Power-plant machinery	-	6	(6)
Shop and power plant machinery - Depreciation	16,780	16,130	650
Diesel locomotives - Repairs	1,247,799	1,254,058	(6,259)
Freight-train cars - Repairs	794,534	912,085	(117,551)
Work equipment-Repairs	11,521	10,698	823
Miscellaneous equipment - Repairs	57,547	68,069	(10,522)
Dismantling retired equipment	-	-	-
Equipment - Depreciation	253,722	254,963	(1,241)
Injuries to persons	5,022	17,937	(12,915)
Insurance	144,924	115,583	29,341
Stationery and printing	7,065	6,101	964
Employees health and welfare benefits	90,330	66,696	23,634
Joint maintenance of equipment expenses - Dr.	62,080	55,610	6,470
Other expenses	940	1,135	(195)
Gross total	2,855,384	2,924,407	(69,023)
Joint maintenance of equipment expenses - Cr.	637,197	553,669	83,528
Net - Belt Railway - Separate operation	\$2,218,187	\$2,370,738	\$ (152,551)
Ratio to operating revenues	11.86	13.80	(1.94)
TRAFFIC:			
Advertising	\$ 276	\$ 452	\$ (176)
Stationery and printing	2,267	4,027	(1,760)
Gross total	2,543	4,479	(1,936)
Charged to Owner Line operation	201	155	46
Net - Belt Railway - Separate operation	\$ 2,342	\$ 4,324	\$ (1,982)
Ratio to operating revenues	.01	.03	(.02)

OPERATING EXPENSES - continued

Year ended December 31	1976	1975	Increase or (Decrease)
TRANSPORTATION - RAIL LINE:			
Superintendence	\$ 711,189	\$ 672,115	\$ 39,074
Dispatching trains	176,413	167,466	8,947
Station employees	583,341	555,015	28,326
Weighing, inspection, and demurrage bureaus	10,433	8,886	1,547
Station supplies and expenses	29,583	25,544	4,039
Yardmasters and yard clerks	1,519,827	1,388,450	131,377
Yard conductors and brakemen	3,114,461	2,864,087	250,374
Yard switch and signal tenders	803,127	776,185	26,942
Yard enginemen	1,872,149	1,829,797	42,352
Yard switching fuel	782,593	704,619	77,974
Servicing yard locomotives	536,475	534,677	1,798
Yard supplies and expenses	1,463,737	1,152,806	310,931
Crossing protection	9,868	12,018	(2,150)
Communication system operation	1,862	3,271	(1,409)
Employees health and welfare benefits	651,405	488,997	162,408
Stationery and printing	50,033	48,204	1,829
Other expenses	8,357	7,796	561
Insurance	231,520	190,327	41,193
Clearing wrecks	75,526	70,225	5,301
Damage to property	24,294	28,288	(3,994)
Loss and damage - Freight	156,796	185,517	(28,721)
Injuries to persons	104,606	227,620	(123,014)
Operating joint yards and terminals - Dr.	357,161	309,952	47,209
Gross total	13,274,756	12,251,862	1,022,894
Operating joint yards and terminals - Cr.	3,944,635	3,525,627	419,008
Net - Belt Railway - Separate operation	\$ 9,330,121	\$ 8,726,235	\$ 603,886
Ratio to operating revenues	49.89	50.78	(.89)

OPERATING EXPENSES - concluded

Year ended December 31	1976	1975	Increase or (Decrease)
GENERAL:			
Salaries and expenses of general officers	\$ 585,751	\$ 540,249	\$ 45,502
Salaries and expenses of clerks and attendants	613,917	568,037	45,880
General office supplies and expenses	263,773	254,392	9,381
Law expenses	100,643	112,461	(11,818)
Insurance	3,186	680	2,506
Employees health and welfare benefits	82,807	65,348	17,459
Pensions	237,073	92,611	144,462
Stationery and printing	31,531	35,758	(4,227)
Other expenses	58,567	44,926	13,641
General joint facilities - Dr.	(341)	(4,173)	3,832
Gross total	1,976,907	1,710,289	266,618
General joint facilities - Cr.	666,492	552,084	114,408
Net - Belt Railway - Separate operation	\$ 1,310,415	\$ 1,158,205	\$ 152,210
Ratio to operating revenues	7.01	6.74	.27
Total operating expenses	\$22,705,546	\$20,642,519	\$ 2,063,027
Total joint facility - credits	7,302,276	6,208,410	1,093,866
Total operating expenses - Belt Railway - Separate operation	\$15,403,270	\$14,434,109	\$ 969,161
Ratio to operating revenues	82.36	84.00	(1.64)
Operating revenue per car	\$ 39.236	\$ 34.774	\$ 4.462
Operating expense per car	\$ 32.317	\$ 29.209	\$ 3.108

CARS HANDLED

Year ended December 31	1976		1975		Increase or (Decrease) Percent
	Cars	Percent	Cars	Percent	
<u>BELT SEPARATE OPERATIONS:</u>					
Intermediate (Belt Handled):					
Loaded Cars	130,223	25.84	132,028	25.15	(1.37)
Empty Cars	104,451	20.72	109,484	20.86	(4.60)
Local (Belt Handled):					
Loaded Cars	121,735	24.15	128,575	24.49	(5.32)
Empty Cars	120,223	23.85	124,077	23.64	(3.11)
Bridge (By Owner Lines):					
Loads and Empty Cars	27,413	5.44	30,769	5.86	(10.91)
TOTAL: (Belt Separate Operations) .	504,045	100.00	524,933	100.00	(3.98)
<u>OWNER TO OWNER OPERATIONS:</u>					
Cars interchanged directly between Owner Roads at Clearing and other yards - handled by Belt Railway Company					
	366,169	41.53	337,622	34.07	8.46
Cars handled by Owner Lines in direct movements over Belt Railway Company of Chicago					
	515,605	58.47	653,403	65.93	(21.09)
TOTAL (Owner to Owner)	881,774	100.00	991,025	100.00	(11.02)
TOTAL Cars handled	1,385,819	-	1,515,958	-	(8.58)

CARS HANDLED FOR LAST FIVE YEARS:

	1976	1975	1974	1973	1972
<u>Belt Separate Operations:</u>					
Intermediate - Loaded	130,223	132,028	174,564	151,251	169,218
Intermediate - Empty	104,451	109,484	148,399	127,560	154,873
Local - Loaded	121,735	128,575	140,942	162,521	160,283
Local - Empty	120,223	124,077	133,926	156,125	154,693
Bridge - Loads & Emptys	27,413	30,769	103,838	199,099	-
<u>Owner to Owner Operations:</u>					
Handled by Belt Railway	366,169	337,622	367,706	257,043	221,315
Handled by Owner Lines	515,605	653,403	793,693	770,356	924,496
TOTAL Cars Handled	1,385,819	1,515,958	1,863,068	1,823,955	1,784,878

MILEAGE OF TRACK OPERATED

Year ended December 31	1976				
	First Main	Second Main	Other Mains	Yard Tracks and Sidings	Total
Owned by The Belt Railway Co.: Cragin to South Chicago including Clearing Yard	27.16	25.60	-	304.80	357.56
Leased from other companies: Chicago, Peoria & Western (Argo)	-	-	-	.52	.52
Trackage rights received from other companies: C. & W. I. R.R. Co. 80th St. to Pullman Jct.	3.56	3.47	-	.03	7.06
Pullman Jct. to South Deering	2.68	2.68	2.54	.38	8.28
South Deering to Burnham	4.76	4.76	.67	3.83	14.02
C.R.I. & P. R.R. - South Chicago	-	-	-	1.57	1.57
Con Rail - South Chicago	-	-	-	.09	.09
I.H.B. R.R. - 55th to Elsdon	1.41	1.40	-	-	* 2.81
B.&O. C.T. R.R.-Clearing to Proviso	9.05	8.09	-	13.70	30.84
B.&O. C.T. R.R. Southwest Division (Cicero District)	-	-	-	6.08	6.08
N & W Railway - Ford Yd. & Lead	-	-	-	1.26	1.26
Calumet Western R.R.-112th to 116th	.51	-	-	-	.51
Con Rail & I.H.B. R.R. (Joint) 116th to 117th	.11	-	-	-	.11
Chicago, West Pullman & Southern - South Chicago	-	-	-	.09	.09
Total	22.08	20.40	3.21	27.03	72.72
Total Miles Operated	49.24	46.00	3.21	332.35	430.80

YARD TRACKS OWNED BY THE BELT RAILWAY CO. BUT NOT OPERATED

(Not included in above mileage)

Leased To	Location	Miles of Road
C.W.P. & S. R.R.	Warner Branch	1.46
C. & O. Ry. Co.	Rockwell St. Yard	10.91
	Total	12.37

TRackage RIGHTS GRANTED OTHER COMPANIES

Company	Location	Miles of Road
I.H.B.R.R.	Elsdon Branch	* 1.51
E.J. & E. Ry.	South Chicago to Mill Gate & South Deering	3.40
	Total	4.91

*Trackage Rights Not Exercised.